

State of South Carolina



Office of the State Auditor

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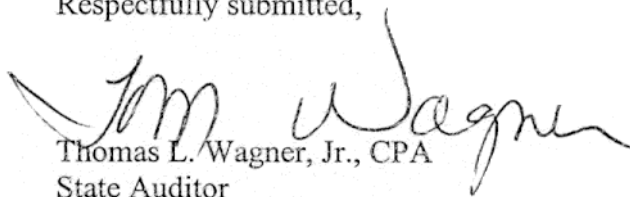
November 16, 1999

The Honorable James H. Hodges, Governor
and
Members of the Board of Directors
South Carolina Transportation Infrastructure Bank
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina Transportation Infrastructure Bank for the fiscal year ended June 30, 1999, was issued by Rogers & Laban, PA, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/trb

**SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK
COLUMBIA, SOUTH CAROLINA**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 1999

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

**TABLE OF CONTENTS
YEAR ENDED JUNE 30, 1999**

	Page
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS:	
Combined balance sheet – all fund types and account groups	2
Statement of revenues, expenditures and changes in fund balance – all governmental fund types	3
Statement of expenditures – budget and actual – other budgeted funds	4
Notes to financial statements	5 - 21
REQUIRED SUPPLEMENTARY INFORMATION – YEAR 2000 (UNAUDITED)	22
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL	23
MANAGEMENT LETTER COMMENTS	24
STATUS OF PRIOR MANAGEMENT LETTER COMMENTS	25
MANAGEMENT'S RESPONSE	Appendix A

INDEPENDENT AUDITOR'S REPORT

Mr. Thomas L. Wagner, Jr., CPA,
State Auditor
State of South Carolina
Columbia, South Carolina

We have audited the accompanying financial statements of the South Carolina Transportation Infrastructure Bank (the Bank) as of and for the year ended June 30, 1999 as listed in the table of contents. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the financial statements of the Bank are intended to present the financial position and results of operations of only that portion of the funds and account groups of the State of South Carolina that is attributable to the transactions of the Bank, an agency of the State. These financial statements do not include other agencies, institutions, departments or component units of the State of South Carolina primary government.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of June 30, 1999, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

The year 2000 supplementary information on page 21 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the unprecedented nature of the year 2000 issue; its effects; the fact that authoritative measurement criteria regarding the status of remediation efforts have not been established; the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter; and, because insufficient audit test exists to support the disclosures. In addition, we do not provide assurance that the Bank is or will become year 2000 compliant, that its year 2000 remediation efforts will be successful in whole or in part, or that parties with which it does business are or will become year 2000 compliant.

October 1, 1999

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1999

	Governmental Fund Type	Account Groups	
	Special Revenue	General Fixed Assets	General Long-Term Debt
ASSETS			
Cash and cash equivalents	\$ 266,482,445	\$	\$
Intergovernmental loans/receivables:			
State agencies	62,896,636		
County governments	79,786,272		
Accrued interest receivable	2,097,873		
Fixed assets:			
Furniture and equipment		4,344	
Amount to be provided for retirement of general long-term debt			275,000,000
Total assets	\$ 411,263,226	\$ 4,344	\$ 275,000,000
LIABILITIES AND FUND EQUITY			
LIABILITIES:			
Accounts payable	\$ 4,019,695	\$	\$
Intergovernmental payable			
State agency	500,000		
Bonds payable			275,000,000
Total liabilities	4,519,695		275,000,000
FUND EQUITY:			
Investment in general fixed assets		4,344	
Fund balances:			
Reserved for:			
Intergovernmental receivables (long-term):			
State agency	52,738,816		
County government	73,336,272		
Federal loan program	2,550,000		
Debt Service	59,408,509		
Bond funded projects	101,191,979		
Unreserved; undesignated	117,517,955		
Total fund equity	406,743,531	4,344	- 0 -
Total liabilities and fund equity	\$ 411,263,226	\$ 4,344	\$ 275,000,000

See accompanying Notes to Financial Statements.

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 1999**

	<u>Special Revenue</u>
REVENUES:	
Taxes and fees transferred from South Carolina Department of Transportation	\$ 16,161,483
Truck registration fees and penalties	24,006,743
Contributions from State agency - South Carolina Department of Transportation	58,739,997
Interest/investment income	12,102,163
TOTAL REVENUES	<u>111,010,386</u>
EXPENDITURES:	
General operating	177,274
Grant awards	69,936,479
Debt service: Interest	5,933,927
TOTAL EXPENDITURES	<u>76,047,680</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>34,962,706</u>
OTHER FINANCING SOURCES:	
Net bond proceeds	285,067,943
TOTAL OTHER FINANCING SOURCES	<u>285,067,943</u>
FUND BALANCE, beginning of year	
As previously reported	88,278,290
Prior period adjustment	(1,565,408)
As restated	<u>86,712,882</u>
FUND BALANCE, end of year	<u><u>\$ 406,743,531</u></u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

**STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL - OTHER BUDGETED FUNDS
FOR THE YEAR ENDED JUNE 30, 1999**

	Legal Basis Budget	Actual on Budgetary Basis	Variance Favorable (Unfavorable)
Personal services	\$ 38,916	\$ 36,466	2,450
Employer contributions	7,009	6,698	311
Other operating expenses	142,055	138,006	4,049
Grant awards (Highway and road permanent improvements) and debt service	79,965,000	75,870,406	4,094,594
Totals	<u>\$ 80,152,980</u>	<u>\$ 76,051,576</u>	<u>\$ 4,101,404</u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1999

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Reporting Entity

The South Carolina Transportation Infrastructure Bank (the Bank) was established effective June 26, 1997 to select and assist in financing major qualified projects by providing loans and other financial assistance to government units and private entities for constructing and improving highway and transportation facilities necessary for public purposes including economic development. The enabling statute is Section 11-43-120 of the Code of Laws of South Carolina. The funds and account groups of the Bank are included in the Comprehensive Annual Financial Report of the State of South Carolina.

The Bank is governed by its Board of Directors. The Board consists of seven voting directors as follows: the Chairman of the Department of Transportation Commission, ex officio; one director appointed by the Governor who shall serve as chairman; one director appointed by the Governor; one director appointed by the Speaker of the House of Representatives; one member of the House of Representatives appointed by the Speaker, ex officio; one director appointed by the President Pro Tempore of the Senate; and one member of the Senate appointed by the President Pro Tempore of the Senate, ex officio. Directors appointed by the Governor, the Speaker, and the President Pro Tempore shall serve terms coterminous with those of their appointing authority. The terms for the legislative members are coterminous with their terms of office.

The primary sources of funding of the Bank consist of up to three percent of funds appropriated under Section 11-43-160 of the South Carolina Code of Laws to the South Carolina Department of Transportation for the construction and maintenance of state highways, which must be used to match federal capitalization grants to the Bank and to provide capital for the state accounts of the Bank, federal funds, contributions and donations from government units and private entities, State appropriations and truck registration fees and penalties. The Bank is also authorized to issue bonds to finance its activities. For fiscal year 1999, fifty percent of the revenues collected for truck registration fees and penalties pursuant to Sections 56-3-660 and 56-3-670 were received by the Bank and used to provide capital and for fiscal year 2000 and thereafter the percentage of revenues from those Sections increases to one hundred percent for the Bank. Also, the South Carolina Department of Transportation is committed to make contributions over a period of years to partially fund certain projects. Effective July 1, 1999, Section 11-43-130 of the South Carolina Code of Laws was amended from a maximum annual contribution by the South Carolina Department of Transportation of three percent of funds appropriated for the construction and maintenance of state highways to an amount not to exceed the revenue produced by one cent a gallon of the tax on gasoline.

The core of the financial reporting entity is the primary government, which has a separately elected governing body. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In turn, component units may have component units. The Bank has determined it has no component units.

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity.

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1999

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

The primary government or entity is financially accountable if it appoints a voting majority of the organization's governing body, including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit's board are considered appointments by the primary entity) and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally dependent on the primary entity that holds one or more of the following powers:

- (1) Determines its budget without another government having the authority to approve and modify that budget;
- (2) Levies taxes or set rates or charges without approval by another government; or,
- (3) Issues bonded debt without approval by another government.

The organization is fiscally independent if it holds all three of those powers. Based on these criteria, the Bank has determined it is not a component of another entity and it has no component units. This financial reporting entity includes only the Bank (a primary entity).

The Bank is granted an annual appropriation for operating purposes as authorized by the South Carolina General Assembly. The appropriation as enacted becomes the legal operating budget for the Bank. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total funds. The laws of the State and the policies and procedures specified by the State for State agencies and institutions are applicable to the activities of the Bank. Generally, all State departments, agencies, and colleges are included in the State's reporting entity, which is the primary government of the State of South Carolina. These entities are financially accountable to and fiscally dependent on the State. Although the Bank operates somewhat autonomously, it lacks full corporate powers. In addition, the Governor and/or the General Assembly appoints most of its board members and budgets a significant portion of its funds.

The reporting entity is part of the State of South Carolina primary government unit and is included in the Comprehensive Annual Financial Report of the State of South Carolina. The accompanying financial statements present the financial position and the results of operations of only that portion of the funds of the State of South Carolina that is attributable to the transactions of the Bank and do not include any other funds of the State of South Carolina.

Basis of Presentation and Description of Funds

The financial statements of the Bank are presented in accordance with generally accepted accounting principles applicable to state and local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Bank uses funds and account groups to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

A fund is a separate fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with related liabilities and residual equities or balances and changes therein. These accounts are segregated to carry on specific activities or attain certain objectives in accordance with applicable regulations, restrictions, or limitations. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund types. Accordingly, all financial transactions in the combined statements have been reported by fund type. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

All of the Bank's funds are classified in the governmental fund type category.

Governmental Fund Types

Governmental funds are those through which most governmental functions typically are financed and are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are to be paid; the difference between the assets and liabilities is fund balance. The Bank has only one governmental fund type.

Special Revenue Fund - The special revenue fund generally records the expenditure of revenues that are restricted to specific programs or projects. The special revenue fund accounts for grant programs, taxes levied with statutorily defined distributions, and any other resources restricted as to purpose.

The funding for expenditures for constructing and improving highway and transportation facilities for the benefit of government units and private entities are recorded as grant expenditures in the special revenue fund.

Account Groups

General Fixed Assets Account Group - This group of accounts is established to account for all fixed assets of the Bank.

General Long-Term Debt Account Group - This account group is used to account for the outstanding balance of any unmatured general long-term liabilities that are expected to be financed from governmental funds. These liabilities include bonds payable.

Significant Accounting Policies

Basis of Accounting

All governmental funds are accounted for using a current financial resources measurement focus whereby only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

The modified accrual basis of accounting is utilized for governmental fund types. Under this method, revenue, including taxes, is recognized when it becomes measurable and available to finance expenditures of the current fiscal year. Expenditures are recognized when the related fund liability is incurred except for unmatured interest on general long-term debt, which is recognized when due. Payments for insurance and similar services benefiting more than one period are recognized as an expenditure in the year of payment.

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1999

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Budget Policy

The Bank is granted an annual appropriation for operating purposes by the South Carolina General Assembly. The appropriation as enacted becomes the legal operating budget for the Bank. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total funds. The Total Funds column in the Appropriation Act for each individual budgetary unit authorizes expenditures from all budgeted resources. A revenue budget is not adopted for individual budgetary units. The General Assembly enacts the budget through passage of line-item appropriations by program within budgetary unit within budgetary fund category, State General Fund or other budgeted funds. Budgetary control is maintained at the line-item level of the budgetary entity. Agencies may process disbursement vouchers in the State's budgetary accounting system only if enough cash and appropriation authorization exist.

Transfers of funds may be approved by the State Budget and Control Board under its authority or by the agency as set forth in Appropriation Act Proviso 72.14 as follows: Agencies shall be authorized to transfer appropriations within programs and within the agency with notification to the Division of Budget and Analyses and the State Comptroller General. No such transfer may exceed twenty percent of the program budget. Transfers from personal services accounts or from other operating accounts may be restricted to any level set by the Board.

During the fiscal year-end closeout period in July, agencies may continue to charge vendor, interagency, and interfund payments for the fiscal year to that fiscal year's appropriations. Any unexpended State General Fund monies as of June 30 automatically lapse to the General Fund of the State on July 31 unless authorization is received from the General Assembly to carry over the funds to the ensuing fiscal year. State law does not require the use of encumbrance accounting.

State law does not precisely define the budgetary basis of accounting. The current Appropriation Act states that the General Assembly intends to appropriate all State funds and to authorize and/or appropriate the use of all other monies to operate State government for the current fiscal year. The State's annual budget is prepared primarily on the modified accrual basis of accounting with several exceptions, principally the cash disbursements basis for payroll expenditures. Because the legally prescribed budgetary basis differs materially from generally accepted accounting principles (GAAP), actual amounts in the accompanying budgetary comparison statement are presented on the budgetary basis. A reconciliation of the differences between the budgetary and GAAP bases is presented in Note 2.

The Statement of Expenditures – Budget and Actual – Other Budgeted Funds presents actual expenditures on the budgetary basis of accounting compared to the legally adopted and modified budget on a line item expenditure basis. The level of legal control for each agency is reported in a publication of the State Comptroller General's Office titled "A Detailed Report of Appropriations and Expenditures" for each fiscal year.

Cash and Cash Equivalents

The amounts shown in the financial statements as "cash and cash equivalents" represent cash on hand with the State Treasurer and cash invested in various instruments by the State Treasurer as part of the State's internal cash management pool.

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1999

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Most State agencies including the Bank participate in the State's internal cash management pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. For credit risk information pertaining to the cash management pool, see the deposits disclosure in Note 3.

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. The Bank records and reports its deposits in the deposit accounts at cost, and records and reports its deposits in the special deposit accounts at fair value. Interest earned by the Bank's special deposit accounts is posted to the Bank's account at the end of each month and is retained. Interest earnings are allocated based on the percentage of the Bank's accumulated daily interest receivable to the total income receivable of the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year-end based on the percentage ownership in the pool.

Some State Treasurer accounts are not included in the State's internal cash management pool because of restrictions on the use of the funds. For those accounts, cash equivalents include investments in short-term highly liquid securities having an initial maturity of three months or less.

Fixed Assets

General fixed assets acquired or constructed are recorded as expenditures from the applicable governmental fund and are capitalized at cost in the general fixed assets account group. Fixed assets are not depreciated in accordance with generally accepted accounting principles for governmental entities. Equipment costing more than \$500 and having a useful life of more than one year is capitalized. Donated fixed assets are recorded at estimated fair value at the time of acquisition.

Fund Equity

In accordance with governmental accounting standards, the portions of fund balances that are not available for appropriation and expenditure and/or are legally segregated for a specific use are presented as reserved at year end. Designated fund balances represent tentative plans for future use of financial resources. The portion reserved for long-term receivables represents financial resources not available for current expenditures.

Compensated Absences

Generally all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the agency's work week are entitled to accrue and carry forward at calendar year-end maximums of 180 days sick leave and of 45 days annual vacation leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave earned for which the employees are entitled to paid time off or payment at termination. The Bank calculates the gross compensated absences liability based on recorded balances of unused leave. The entire unpaid liability for which the employer expects to compensate employees through paid time off or cash payments, inventoried at fiscal year-end current salary costs and the cost of

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1999

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

the salary-related benefit payments, is recorded in the general long-term debt group of accounts.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2. BUDGETARY REPORTING BASIS:

The financial statements prepared on the legally enacted basis differ from the generally accepted accounting principles (GAAP) statements. The statement of expenditures – budget and actual – other budgeted funds presents the legal basis budget which was enacted.

Adjustments of the GAAP basis of accounting to the budgetary basis of accounting consist primarily of reclassification from financial statement fund types to budgetary fund categories and reversals of payroll accruals and the related fringe benefits. The following schedule reconciles the differences.

	Special Revenue	Other Budgeted Funds
Expenditures on GAAP Basis	\$ 76,047,680	
Fund reclassification:		
Grant awards	(69,936,479)	69,936,479
Debt service	(5,933,927)	5,933,927
Other	(177,274)	177,274
Net accruals:		
Personal services and employer contributions		3,896
Expenditures on legal basis	<u>\$ -</u>	<u>\$ 76,051,576</u>

NOTE 3. DEPOSITS AND INVESTMENTS:

All deposits of the Bank are under the control of the State Treasurer who, by law, has sole authority for investing State funds.

The following schedule reconciles deposits within the footnotes to the balance sheet amounts:

<u>Balance Sheet</u>		<u>Footnotes</u>	
Cash and Cash		Deposits Held by	
Equivalents	<u>\$ 266,482,445</u>	State Treasurer	<u>\$ 266,482,445</u>

Deposits Held by State Treasurer

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days.

With respect to investments in the State's cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agent in the State's name. Information pertaining to reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1999

NOTE 3. DEPOSITS: (CONTINUED)

Cash and cash equivalents reported on the balance sheet include \$71,913 in realized appreciation as of June 30, 1999. The interest/investment income reported in the statement of revenues, expenditures and changes in fund balance include an unrealized depreciation loss of \$322,006 for the year ended June 30, 1999.

Deposits at June 30, 1999 held by the State Treasurer include \$101,191,979 of unexpended funds related to the Series 1998A bond issue which are to be used for projects in progress (see Note 12) and \$2,550,000 in Federal funds that are restricted for use for a loan on any project that is eligible for Federal funding.

NOTE 4. RECEIVABLES:

INTERGOVERNMENTAL RECEIVABLES – STATE AGENCIES

The Bank entered into an intergovernmental agreement on March 10, 1998 with Horry County (County) and the South Carolina Department of Transportation (Transportation) to fund \$545,000,000 in project costs for Phase I of the Conway By-Pass. The agreement provides that Transportation will contribute \$114,000,000 of the project costs, that the Bank will make an interest free loan to the County in the amount of \$300,000,000 to be used for project costs as incurred and that the Bank will make grants to the County for the remaining \$131,000,000 as expenditures are incurred. The agreement was amended on April 27, 1999 to provide \$95,000,000 in funds for Phase II of the Conway By-Pass. This funding will be contributed by Transportation. See Note 12 for the payment schedule for these contributions by Transportation. Each fiscal year the Bank records grant expenditures for these projects equal the full amount of Transportation's share of the project costs funded and/or to be funded by Transportation's contributions. An offsetting amount has been recorded as revenues. A contribution receivable was recorded to the extent Transportation's share of the cost incurred were in excess of contributions received as of each year. A summary of changes in the contributions receivables from Transportation for the fiscal year ended June 30, 1999 is as follows:

	Balances 6/30/98	Current Expenditures	Contributions Received	Balances 6/30/99
Conway By-Pass				
Phase I	\$ 3,998,819	\$ 46,567,975	\$ 10,000,000	\$ 40,566,794
Phase II		12,172,022		12,172,022
Totals	<u>\$ 3,998,819</u>	<u>\$ 58,739,997</u>	<u>\$ 10,000,000</u>	<u>\$ 52,738,816</u>

Due to the long term nature of the \$52,738,816 in contributions receivables, they have equally been offset as a reservation of fund balance to reflect that they are not available to pay current expenditures.

The intergovernmental receivables amount from State agencies also includes \$10,157,820 for truck registration fees and penalties collected by the South Carolina Department of Public Safety but not remitted to the Bank as of June 30, 1999. The Bank received the \$10,157,820 in July, 1999.

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 1999

NOTE 4. RECEIVABLES: (CONTINUED)

INTERGOVERNMENTAL LOANS – COUNTY GOVERNMENTS

The Bank has entered into intergovernmental agreements with various local governments for all or partial funding with loans for certain permanent highway and road improvement projects. Details of the loans to date are as follows:

<u>Local Government/Terms</u>	<u>Balances 6/30/99</u>
Horry County - Conway By-Pass See Note 12 for details of this loan.	\$ 67,946,957
Horry County - Ride Project See Note 12 for details of the loan.	4,739,315
York County - Metropolitan Road Corridors Non-interest bearing and payable in three annual installments of \$2,200,000 each on July 1, 1999, 2000 and 2001.	6,600,000
Total	<u>\$ 79,286,272</u>

Due to the long term nature of the loans receivable at June 30, 1999, \$73,336,272 been offset as a reservation of fund balance to reflect that portion of the receivables that is not currently available to pay current expenditures.

INTERGOVERNMENTAL RECEIVABLE – COUNTY GOVERNMENT

The Intergovernmental Agreement entered into March 10, 1998 with Horry County and the South Carolina Department of Transportation and referred to on the prior page provides that Transportation shall be paid a fee of \$3,000,000 in thirty-six (36) equal monthly installments commencing with the execution of the loan agreement. During the current fiscal year, the Bank paid Transportation \$750,000 on behalf of Horry County which was included in current year project expenditures. At June 30, 1999, the Bank recorded a receivable from Horry County for \$500,000 and a payable to Transportation for \$500,000.

NOTE 5. FIXED ASSETS:

The following is a summary of changes in the General Fixed Assets Account Group during the fiscal year:

	<u>Furniture and Equipment</u>
Balance, June 30, 1998	\$4,344
Additions	<u>0</u>
Balance, June 30, 1999	<u>\$4,344</u>

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

NOTES TO FINANCIAL STATEMENTS JUNE 30, 1999

NOTE 6. GENERAL LONG-TERM DEBT:

A summary of changes in general long-term debt for the year ended June 30, 1999 is as follows:

	Bonds Payable	Liability for Compensated Absences	Totals
Balances, beginning of year	\$ 11,210	\$ 11,210	\$ 11,210
Increases	275,000,000		275,000,000
Decreases		(11,210)	(11,210)
Balances, end of year	<u>\$ 275,000,000</u>	<u>\$</u>	<u>\$ 275,000,000</u>

A summary of the bonds payable as of June 30, 1999 is as follows:

Issue Date	Series	Original Face Amount	Maturity Date	Interest Rates (%)	Unpaid Principal Balance June 30, 1999
October 21, 1998	1998A	\$275,000,000	2017	4.00-6.00	<u>\$275,000,000</u>

On October 21, 1998 the Bank issued \$275,000,000 in bonds (Series 1998A). The net bonds proceeds consist of the following:

Face amount of bonds	\$275,000,000
Original issue premium	<u>11,708,729</u>
	286,708,729
Less: Underwriter's discount	\$161,321
Guaranty insurance premium	917,000
Insurance costs	<u>562,465</u>
	<u>1,640,786</u>
Net bonds proceeds	<u>\$285,067,943</u>

The primary purpose of the bonds was to fund a portion of the Horry County project.

The payment of the principal and interest on the bonds is secured by a lien and pledge of certain of the Bank's revenues. The master revenue bond resolution requires the establishment and maintenance of various debt service bank accounts. \$59,408,509 was on deposit for this purpose at June 30, 1999.

Annual payments of principal and interest are due on the bonds and are being paid semiannually.

Details of annual debt service, including interest, for each year are as follows:

Year ending June 30,	Principal	Interest	Total
2000	\$ 9,625,000	\$ 13,158,835	\$ 22,783,835
2001	10,510,000	12,716,723	23,226,723
2002	10,865,000	12,141,160	23,006,160
2003	11,245,000	11,534,085	22,779,085
2004	11,650,000	10,961,710	22,611,710
Thereafter	<u>221,105,000</u>	<u>80,225,870</u>	<u>301,357,870</u>
Total debt service obligations	<u>\$ 275,000,000</u>	<u>\$ 140,765,383</u>	<u>\$ 415,765,383</u>

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1999

NOTE 6. GENERAL LONG-TERM DEBT: (CONTINUED)

Interest expenditures for the fiscal year ended June 30, 1998 were \$5,933,927. \$740,741 of accrued interest received at the time of sale of the 1998A bonds was deducted from the interest payment made during the fiscal year ended June 30, 1999.

The Series 1998A bonds maturing on or after October 1, 2009 are redeemable at the option of the Bank on and after October 1, 2008, in whole or in part at any time in any order of maturity to be determined by the Bank by payment of the respective redemption prices, expressed as percentages set forth below of the principal amount of the bonds to be redeemed together with accrued interest to the redemption date:

<u>Redemption Period</u> <u>(both dates inclusive)</u>	<u>Redemption Price</u>
October 1, 2008 through September 30, 2009	101%
October 1, 2009 and thereafter	100%

NOTE 7. PENSION PLAN:

The Retirement Division maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

The Bank's employee is covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division of the State Budget and Control Board, a public employee retirement system. Generally all State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

Under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 30 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82 percent of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for a deferred annuity after five years service and qualify for a survivor's benefit upon completion of 15 years credited service. Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service. A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

Since July 1, 1988, employees participating in the SCRS have been required to contribute six percent of all compensation. Effective July 1, 1998, the employer contribution rate became 9.58 percent which included a 2.03 percent surcharge to fund retiree health and dental insurance coverage. The Bank's actual contribution to the SCRS for the two most recent fiscal years ended June 30, 1999 and 1998 were approximately \$2,500 and \$1,600 respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for the year. Also, the Bank paid employer group-life insurance contributions of approximately \$50 in the current fiscal year at the rate of .15 percent of compensation.

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1999

NOTE 7. PENSION PLAN: (CONTINUED)

The amounts paid by the Bank for pension and group-life benefits are reported as general operating expenditures.

Article X, Section 16 of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefit and employee/employer contributions for each retirement system. Employee and employer contribution rates to SCRS are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest 12 consecutive quarters of compensation).

The System does not make separate measurements of assets and pension benefit obligations for individual employers. Under Title 9 of the South Carolina Code of Laws, the Bank's liability under the plan is limited to the amount of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, the Bank's liability under the pension plan is limited to the amounts appropriated therefore in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the Bank recognizes no contingent liability for unfunded costs associated with participation in the plan.

At retirement, employees participating in the SCRS may receive additional service credit for up to 90 days for accumulated unused sick leave.

NOTE 8. POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS:

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. The employee of the Bank is eligible to receive these benefits. The State provides postemployment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits.

These benefits are provided through annual appropriations by the General Assembly to the Bank for its active employee and to the State Budget and Control Board for all participating State retirees except the portion funded through the pension surcharge and provided from other applicable sources of the Bank for its active employee. The State finances health and dental plan benefits on a pay-as-you-go basis. Approximately 19,170 State retirees met these eligibility requirements as of June 30, 1998.

The Bank recorded employer contributions expenditures within the general operating expenditure category for these insurance benefits for its active employee of approximately \$1,000 for the year ended June 30, 1999. As discussed in Note 7, the Bank paid approximately \$670 applicable to the 2.03% surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999**

NOTE 8. POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS: (CONTINUED)

dental insurance benefits.

Information regarding the cost of insurance benefits applicable to Bank retirees is not available. By State law, the Bank has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

In addition, the State General Assembly periodically directs the Retirement Systems to pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from Systems' earnings; however, a portion of the required amount is appropriated from the State General Fund annually for the SCRS benefits.

NOTE 9. DEFERRED COMPENSATION PLANS:

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k) and 403(b), administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Employees may withdraw the current value of their contributions when they terminate State employment. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

On August 20, 1996, the provisions of Internal Revenue Code Section 457 were amended by adding subsection (g). That subsection provides that new plans will not be considered eligible plans unless all assets and income of the plans are held in trust for the exclusive benefit of the participants and their beneficiaries. Existing plans had to comply with this requirement by January 1, 1999. South Carolina's plan adopted this change effective July 24, 1998.

NOTE 10. TRANSACTIONS WITH STATE ENTITIES:

The Bank has significant transactions with the State of South Carolina and various State agencies.

Services received at no cost from State agencies include maintenance of certain records by the Comptroller General; check preparation, banking, bond trustee and investment services from the State Treasurer; and legal services from the Attorney General. Other services received at no cost from various divisions of the State Budget and Control Board include: insurance plans administration, procurement services, pension plans administration, audit services, personnel management, assistance in the preparation of the State Budget, review and approval of certain budget amendments, and other centralized functions.

The Bank had financial transactions with various State agencies during the fiscal year. Payments were made to divisions of the State Budget and Control Board for pension and insurance plans, employee and employer plan contributions and health insurance coverage, office supplies, printing, telephone, and interagency mail. Payments were also made to other agencies for unemployment insurance and workers' compensation coverage for employees. The amounts of expenditures applicable to these transactions are not readily available.

The Bank paid the South Carolina Department of Transportation \$43,900 during the fiscal year 1999 for administrative services and clerical assistance provided for the period January 1, 1999 – June 30, 1999.

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1999

NOTE 10. TRANSACTIONS WITH STATE ENTITIES: (CONTINUED)

The Bank provided no services free of charge to other State agencies during the fiscal year. The Bank participates in the statewide dual employment program.

The Bank received from the South Carolina Department of Transportation \$16,161,483 during fiscal year 1999 which represented the three percent of funds appropriated to Transportation in accordance with Section 11-43-160 of the South Carolina Code of Laws for the construction and maintenance of highways from State highway taxes and fees.

Also, see Note 4 regarding receivables.

NOTE 11. RISK MANAGEMENT:

The Bank is exposed to various risks of loss including theft of, damage to, or destruction of assets and general torts, but does not maintain any State or commercial insurance coverage for those risks. The bank did not incur any losses during the year.

Several State funds accumulate assets and the State itself assumes substantially all risks for the following type risks:

1. Claims of State employees for unemployment compensation benefits (Employment Security Commission);
2. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund);
3. Claims of covered public employees for health and dental insurance benefits (Office of Insurance Services); and
4. Claims of covered public employees for long-term disability and group-life insurance benefits (Office of Insurance Services).

Employees may elect health coverage through either a health maintenance organization or through the State's self-insured plan. All of the other coverages listed above are through the applicable State self-insured plan except dependent and optional life premiums are remitted to commercial carriers.

State agencies and other entities are the primary participants in the State's Health and Disability Insurance Fund.

Since the Bank does not maintain any State or commercial insurance coverage, claims liabilities for uninsured risks of loss are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities when recorded include a provision for claims in the process of review and an amount for claims that have been incurred but not reported which are reported separately. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing the claims liability does not necessarily result in an exact amount. Claims liabilities are estimated using past experience adjusted for current trends and are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and societal factors. There is no evidence of asset impairment or other information to indicate that a loss expenditure and liability should be recorded at June 30, 1999; therefore, no loss accrual has been recorded for uninsured losses.

June 30, 1999

NOTE 12. COMMITMENTS AND SUBSEQUENT EVENT:

INTERGOVERNMENTAL AGREEMENTS

The Bank has entered into intergovernmental agreements with various local governments for all or partial funding with loans and other financial assistance for certain highway and road permanent projects. A listing of those loan and other financial assistance commitments and their status as of June 30, 1999 are as follows:

Local Government/ Project Description/ Terms of Loans	Loans					Other Financial Assistance			
	Total Loan Commitment	Current	Prior	Cumulative	Undrawn Balance	Total Award	Expenditures		Remaining Commitment
							Current	Prior	
Horry County Conway By-Pass, Phase I , (1) and (3). Non-interest bearing and payable \$15,000,000 on July 1, 1998 and \$3,750,000 quarterly thereafter beginning October 1, 1998.	\$300,000,000	\$	\$	\$	\$	\$ 245,000,000	\$46,567,975	\$ 13,998,818	\$184,433,207
Advances		72,425,189	21,771,778	94,196,967	205,803,033				
Less, payments		(26,250,000)		(26,250,000)					
Balance, June 30, 1999				67,946,967					
Horry County Conway By-Pass, Phase II, (2)						95,000,000	12,172,022		82,827,978
Total contributions realized							58,739,997	13,998,818	
Horry County Ride Project (Table I and Table III projects), (1) and (3) Interest bearing loan at annual rate of 3% per annum; to be paid with quarterly payments beginning September 30, 1999 continuing thereafter through June 30, 2017.	247,577,664	4,739,315		4,739,315	242,838,349				
York County Improvement of Road Corridors						130,000,000	10,842,945		119,157,055
Counties for the GRID Program (Anderson, Spartanburg and Greenville) Upstate GRID Project						350,000,000	353,537		349,646,463
Beaufort County Route 170 Improvement						86,500,000			86,500,000
Totals	\$547,577,664	\$50,914,504	\$21,771,778	\$ 72,686,282	\$ 448,641,382	\$ 906,500,000	\$69,936,479	\$ 13,998,818	\$822,564,703

See next page for explanation references (1), (2), and (3).

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999**

NOTE 12. COMMITMENTS AND SUBSEQUENT EVENT: (CONTINUED)

INTERGOVERNMENTAL AGREEMENTS: (CONTINUED)

(1) The South Carolina Department of Transportation (Transportation) was a party to the intergovernmental agreement and agreed to contribute \$114,000,000 of the \$245,000,000 award. The \$114,000,000 is payable to the Bank \$10,000,000 per year for 11 years and the \$4,000,000 in the 12th year. \$20,000,000 has been paid through June 30, 1999. A contribution receivable has been recognized to the extent Transportation's share of the project costs exceeded the contribution payments by Transportation to the Bank. See Note 4.

(2) An amendment to the intergovernmental agreement referred to above provided for the South Carolina Department of Transportation (Transportation) to contribute \$95,000,000 to fund the award to Horry County by the Bank. It is payable \$7,600,000 each fiscal year beginning July 1, 1999 for 20 years including 5% interest per annum. A contribution receivable has been recognized to the extent Transportation's share of the project costs exceeded the contribution payments by Transportation to the Bank.

(3) As a condition to the \$247,577,664 loan for the Ride Project and the previously made \$300,000,000 loan, Horry County was required to establish a Loan Reserve Account with the Bank transferring the entire balance it was holding in its Road Special Revenue Fund and is required to transfer for deposit all future receipts of the 1.5% Road Special Revenue Fund portion of the Hospitality Fee into a Loan Servicing account. The Bank will make transfers from the Loan Servicing account for the scheduled loan payments for the \$300,000,000 loan and the \$247,577,664 loan.

\$17,232,251 was transferred by Horry County to the Bank after June 30, 1999 to establish the Loan Reserve Account. The initial payment to the Loan Servicing account was made in August, 1999.

As quarterly payments become due, if the balance of the Loan Servicing Account is not sufficient to make the loan payments, the Bank will cause the State Treasurer to pay the deficiency from the balance in the Loan Reserve Account, if any. If the combined balances of the Loan Servicing Account and the Loan Reserve Account are not sufficient to make the scheduled loan payments, the Bank shall have the option, in its sole discretion, of instructing the State Treasurer, pursuant to section 11-43-210 of the South Carolina Code of Laws, to withhold and pay over the amount due from other funds held by the State and allotted or appropriated to Horry County or utilize those remedies provided by paragraph 4.2 of the Series 1999A Master Loan Agreement.

Upon the expiration or earlier termination of this Agreement, the balance of the Loan Reserve Account, if any, after satisfying all remaining payments due on outstanding agreements or loans, shall be paid to Horry County.

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999**

NOTE 12. COMMITMENTS AND SUBSEQUENT EVENT: (CONTINUED)

INTERGOVERNMENTAL AGREEMENTS: (CONTINUED)

On July 1, 1998, the Board of Directors of the Bank approved applications for the following projects:

<u>Project</u>	<u>Bank's Estimated Share of Cost</u>
Charleston County -- Replacement of the Cooper River Bridges	\$ 312,000,000
Lexington County -- Widening of Lake Murray Dam and portions of SC60 and SC6	<u>48,000,000</u>
Total	<u>\$ 360,000,000</u>

No intergovernmental agreements have been entered into regarding these two projects.

OTHER MATTERS/SUBSEQUENT EVENT

During the fiscal year ended June 30, 1998 and 1999, the Joint Bond Review Committee of the State of South Carolina has reviewed and approved the issuance of \$1,963,346,342 of Bank General Obligation and/or Revenue Bonds. \$275,000,000 in bonds were issued on October 2, 1998 and also, the Bank issued \$308,900,000 of Revenue Bonds, Series 1999A on July 27, 1999 with varying interest rates of 5.00 – 5.50% per annum and maturities from 2009 through 2024. The purpose of the bonds was to partially fund existing project commitments.

NOTE 13. PRIOR PERIOD ADJUSTMENT:

Effective July 1, 1997, the Bank implemented Governmental Accounting Standards Board (GASB) Statement No. 31, Accounting and Financial Reporting for Certain Investments and External Investment Pools. This statement requires that most investments of governmental entities be stated at fair value rather than at cost. For internal investment pools, this Statement requires the equity position of each fund that sponsors the pool to be reported as assets in those funds. As a participant in the State's internal cash management pool, the Bank has been allocated unrealized gains to reflect its pro rata share of the pool.

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1999

NOTE 13. PRIOR PERIOD ADJUSTMENT: (CONTINUED)

The South Carolina State Treasurer provided management with incorrect fair value amounts as of June 30, 1998 and management has restated its fund balances as of July 1, 1998 to reflect the correct amounts. The change to the special revenue fund balance is as follows:

<u>Beginning Fund Balances as of July, 1, 1998</u>		
<u>As Previously</u>	<u>Prior Period</u>	<u>As</u>
<u>Reported</u>	<u>Adjustment</u>	<u>Restated</u>
\$ 88,278,290	\$ (1,565,408)	\$ 86,712,882

Statement No. 31 allows interest and investment income and both realized and unrealized gains to be reported on a single financial statement line. For this fund, these items are reported as "Interest/Investment income" in the Statement of Revenues, Expenditures, and Changes. Accordingly \$1,959,327 in unrealized appreciation was previously reported in the Statement of Revenues, Expenditures, and Changes for the year ended June 30, 1998. The restated unrealized appreciation is \$393,919 for the year ended June 30, 1998.

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

**REQUIRED SUPPLEMENTARY INFORMATION – YEAR 2000 (UNAUDITED)
JUNE 30, 1999**

The year 2000 ("Y2K") issue arises because most computer software programs allocate two digits to the Year date field on the assumption that the first two digits will be 19. Without reprogramming, such programs will interpret, for example, the year 2000 as the year 1900. Also, some programs may be unable to recognize that the year 2000 is a leap year.

The year 2000 issue may effect electronic equipment containing computer chips that have date recognition features – such as environmental systems, elevators, and vehicles – as well as computer software programs. In addition, the year 2000 issue affects not only computer applications and equipment under the Bank's direct control but also the systems of other entities with which the Bank transacts business. The only equipment under the Bank's control consists of a personal computer which is Y2K compliant.

Because of the unprecedented nature of the Y2K issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the Bank is or will be Y2K ready, the Bank's remediation efforts will be successful in whole or in part or that parties with whom the Bank does business or on which it is dependent will be Y2K ready.

The Bank is making contingency plans for the possible failure of computer systems and embedded devices and also for possible interruptions to the Bank's business.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

Mr. Thomas L. Wagner, Jr., CPA,
State Auditor
State of South Carolina
Columbia, South Carolina

In planning and performing our audit of the financial statements of the South Carolina Transportation Infrastructure Bank (the Bank) for the year ended June 30, 1999, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted a matter as detailed on the following page involving the internal control and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the organization's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. We believe the condition noted on the following page is a material weakness.

We also noted one other matter as detailed on the following page.

This report is intended solely for the information and use of the Bank's Board of Directors and management of and is not intended to be and should not be used by anyone other than these specified parties.

October 1, 1999

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

MANAGEMENT LETTER COMMENTS

JUNE 30, 1999

MATERIAL REPORTABLE WEAKNESS

GENERAL LEDGER NOT MAINTAINED

The Bank did not maintain a general ledger during the year that included all of the cash accounts maintained by the State Treasurer. Also it did not include the various asset and liability accounts of the Bank. A similar finding was included in the prior year management letter comments.

We recommend that the Bank establish and maintain a general ledger which accurately records all of the financial activity of the Bank in accordance with generally accepted accounting principles.

OTHER WEAKNESS

INSURANCE COVERAGE NOT OBTAINED

Our audit disclosed the Bank did not have any commercial, tort and fidelity insurance coverage in force during fiscal year 1999. Good business practices dictate that various types of insurance coverage be obtained to protect the Bank and its Directors from claims and losses. A similar finding was included in the prior year management letter comments.

We recommend that the overall needs for insurance coverage be reviewed, and, to the extent coverage is required, it be obtained.

SOUTH CAROLINA TRANSPORTATION INFRASTRUCTURE BANK

STATUS OF PRIOR MANAGEMENT LETTER COMMENTS

JUNE 30, 1999

We performed an audit similar in scope for the year ended June 30, 1998 and our report thereon was dated September 29, 1998. The report contained one material reportable weakness and one other weakness.

Management set up a general ledger but it was not complete and has made inquiries regarding insurance coverage but it has not been purchased.

MANAGEMENT'S RESPONSE

APPENDIX A



South Carolina Transportation Infrastructure Bank

November 12, 1999

Mr. Barry S. Laban
Rogers & Laban, CPA's
P. O. Box 124
Columbia, South Carolina 29202

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Chairman

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Dear Mr. Laban:

The following is provided in response to the Material Reportable Weaknesses and recommendations contained in the FY99 audit of the South Carolina Transportation Infrastructure Bank.

MATERIAL REPORTABLE WEAKNESSES

GENERAL LEDGER NOT MAINTAINED RECOMMENDATION:

We recommend that the Bank establish and maintain a general ledger which accurately records all of the financial activity of the Bank in accordance with generally accepted accounting principles.

RESPONSE:

The Bank's financial activity is recorded through an accounting software program. Detailed records on financial activity regarding bond debt service accounts have not been kept in this system as they are recorded by the State Treasurer's Office. Beginning in FY 1999-2000, the Bank will also maintain detail of activity in these accounts in its accounting system.

RECOMMENDATION:

We recommend that the overall needs for insurance coverage be reviewed, and, to the extent coverage is required, it be obtained.

RESPONSE:

At its March 3, 1999 meeting, the Infrastructure Bank Board asked Mr. Madden to review the insurance coverage requirements for the Bank. At its July 7, 1999 meeting, it was reported that the recommendation of an insurance consultant is to acquire general tort liability insurance and automobile liability insurance through the Insurance Reserve Fund and to acquire officer's liability insurance. Mr. Madden was authorized by the Board to negotiate for the recommended insurance coverages. Currently, the Bank Board has obtained automobile liability coverage and general tort liability coverage from the State Budget and Control Board and workers compensation coverage for Board members through the State Accident Fund. The competitive bid procurement process is underway for a Directors' and Officers' liability policy as well as a fidelity policy.